

Bonneville Power Administration

Executive Budget Summary

Mission

Bonneville Power Administration (Bonneville) is the Department of Energy's (DOE) electric Power Marketing Administration (PMA) for the Federal Columbia River Power System (FCRPS). Bonneville's mission is to meet its public responsibilities through commercially successful businesses. Bonneville's business strategies to fulfill its mission can be summarized as: selling electric energy at cost and below market; managing costs to be competitive in providing services to customers; strengthening Bonneville's financial position; and reorienting the organization to be responsive, flexible and competitive.

Bonneville's success in the marketplace supports the achievement of its vital responsibilities for fish and wildlife, energy conservation, renewable resources, and low-cost power and transmission for the people of the Pacific Northwest. Success is achieved by Bonneville satisfying its customers and enhancing the economic and environmental health of the region. Bonneville values the individual diversity, entrepreneurial spirit, personal responsibility, and public service of its workers.

Bonneville provides electric power (about forty-five percent of the electricity consumed in the region), transmission (about three-fourths of the region's high voltage transmission capacity), and energy efficiency throughout the Pacific Northwest, a 300,000 square mile service area. Bonneville markets the electric power produced from 31 operating Federal hydro projects in the Pacific Northwest owned by the U.S. Army Corps of Engineers (Corps) and the U.S. Department of Interior, Bureau of Reclamation (Bureau), and also acquires non-Federal power to meet the needs of its customer utilities.

Congress created Bonneville in 1937 as part of the Bonneville Project Act, providing the foundation for Bonneville's statutory utility responsibilities and authorities. In 1974, passage of the Federal Columbia River Transmission System Act (Transmission System Act) placed Bonneville under provisions of the Government Corporation Control Act (31 U.S.C. 9101-9110). The Legislation provided Bonneville with "self-financing" authority and established the Bonneville Fund, a revolving fund, allowing Bonneville to use its revenues from electric ratepayers to directly fund all programs and to sell bonds to the U.S. Treasury to finance the region's high-voltage electric transmission system requirements. In 1980, enactment of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) expanded Bonneville's utility obligations and responsibilities to encourage electric energy conservation and develop renewable energy resources, and protect, mitigate and enhance the fish and wildlife of the Columbia River and its tributaries. In support of these expanded responsibilities, Bonneville's Treasury borrowing authority was expanded to allow the sale of bonds to finance conservation and other resources and to carry out fish and wildlife capital improvements.

Bonneville's program is mandatory and nondiscretionary. It receives no annual appropriations from Congress. Bonneville funds the expense portions of its budget and repays the Federal investment in the FCRPS with revenues from electric rates. Bonneville is authorized to sell bonds to the Treasury up to a cumulative outstanding total of \$3.75 billion (permanent, indefinite borrowing authority). Through FY 2002, Bonneville has returned approximately \$18.3 billion to the Treasury for payment of FCRPS

O&M (about \$2.8 billion), interest (about \$10.1 billion), and amortization (about \$5.4 billion) of appropriations and bonds. Bonneville made its full FY 2002 cash payment of \$1.056 billion, including \$266 million in accelerated amortization. Fish Credits for FY 2002 were \$38.3 million. For FY 2003, Bonneville plans to pay the Treasury \$788 million, of which \$312 million is to repay investment principal, \$440 million is for interest, and \$36 million is for other payments including \$35 million for Pension and Post-retirement Benefits. The FY 2004 Treasury payment is currently estimated at \$717 million.

Bonneville's FY 2004 budget has been prepared on the basis of its major areas of activity, Power and Transmission. This structure supports Bonneville's ability to become more competitive in the rapid restructuring of the deregulated wholesale electric energy market. This industry deregulation stems largely from the 1992 Energy Policy Act and ensuing Federal Energy Regulatory Commission (FERC) orders (FERC Orders 888 and 889) requiring separation of utility power and transmission functions. As a Federal agency, Bonneville is not subject to FERC jurisdiction, but chooses to comply with the FERC orders because it views compliance as essential to successfully compete in the current and future electric power market. Further, Bonneville supports DOE's October 1995 "Power Marketing Administration Open Access Policy." This budget reflects Bonneville's functional separation of power and transmission and its accounting and budgetary implementation of major activities.

Goals and Objectives

Bonneville has adopted the following strategic business objectives for FY 2003: 1. Achieve high and continually improving customer satisfaction; 2. Increase the value of our business and share the expanded benefits; 3. Be a low-cost provider of power and transmission services in the region; 4. Achieve and maintain financial integrity; 5. Keep the system safe and reliable; 6. Invest in results to enhance the region's natural environment; 7. Transform Bonneville into a diverse, employee-centered, high-performing, business-oriented organization.

Departmental Goal

Increase global energy security, maintain energy affordability, and reduce adverse environmental impacts associated with energy production, distribution, and use by developing and promoting advanced energy technologies, policies, and practices that efficiently increase domestic energy supply, diversity, productivity, and reliability.

Program Assessment

The Program Assessment Rating Tool will provide valuable information and Bonneville will work with DOE and OMB to develop and refine recommendations on measures and targets used to indicate program performance. Bonneville will continue to improve its long-term targets and measures of performance. The annual targets as provided in this budget submission are measurable and reflect performance standards used in the electric utility industry to evaluate performance. Bonneville will continue to achieve its mandate under the law in regard to marketing of Federal power, customer preference, cost recovery, widespread use of the power, and disposition of revenues.

Strategic Objective

The Departmental goal is supported by the following strategic objective and Program Strategic Performance Goal of the Power Marketing Administrations:

Ensure Federal hydropower is marketed and delivered while passing the North American Electric Reliability Council's Control Compliance Ratings, meeting planned repayment targets, and achieving a recordable accident frequency rate at or below our safety performance standard.

Strategy

Bonneville's FY 2004 budget incorporates the budget decisions that Bonneville has made to remain competitive in the electric utility industry in the Pacific Northwest. The last two years have been particularly challenging with Bonneville's financial reserves dropping significantly which left Bonneville's Power Business Line with a forecasted financial gap between revenues and expenses estimated at \$1.2 billion over the remaining four years of the current power rate period. Bonneville's first priority now is to restore its financial balance. Through implementation of a variety of financial tools, Bonneville is working to assure full recovery of its costs by the end of the power rate period in FY 2006. Bonneville has already identified about \$350 million in potential expense savings, deferrals and other actions. In addition, Bonneville is no longer assuming a power rate decrease in FYs 2004-2006, which further decreases the gap by \$330 million. More cost reductions that potentially could contribute an additional \$500 million toward closing the Power Business Line gap are being pursued, as well as the possible use of other tools, such as power rate adjustment clauses, debt optimization strategies, and cash management strategies.

The following table provides a summary of accrued expenditures.

FUNDING SUMMARY (accrued expenditures in thousands of dollars)

	FY 2002	FY 2003	FY 2004
CAPITAL INVESTMENTS			
Power Business Line	\$ 108,197	\$211,821	\$168,556
Transmission Business Line	\$259,400	\$330,240	\$329,568
Capital Equipment & Bond Premium	\$ 21,988	\$ 43,958	\$ 28,800
Total Capital Investments \1	\$389,585	\$586,019	\$526,924
Accrued expenditures will require budget obligations of	\$389,585	\$586,019	\$526,924
Operating Expenses	\$3,195,225	\$3,185,349	\$3,428,588
Projects Funded in Advance	\$34,409	\$96,617	\$133,426
 CAPITAL TRANSFERS (cash)	 \$505,000	 \$312,000	 \$222,000
 BPA NET OUTLAYS	 \$401,000	 -\$29,000	 -\$11,000
 BPA STAFFING (FTE)	 3,121	 3,260	 3,252

Notes:

These budget estimates are subject to continual change due to changing economic and institutional conditions in the electric utility industry in the Pacific Northwest.

Net Outlay estimates are based on forecasted market conditions, current cost savings to date, and anticipated use of rate adjustment and financial management tools. Net Outlays will change throughout the rate period as BPA experiences actual market and hydro conditions and responds with management actions.

Revenues, included in the Net Outlay formulation, are calculated consistent with rate period management goals and assume a number of rate, cost and cash adjustments. Assumed adjustments include the use of a combination of tools that include CRAC adjustments, cost re-estimates, net revenue risk adjustment, debt service refinancing strategies and/or short-term financial tools to manage net revenues and cash. Adjustments for depreciation, 4(h)(10)(C) and Fish Cost Contingency Fund credits are also assumed.



Stephen J. Wright
Administrator and Chief Executive Officer

Date 1/23/03